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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-82920; File No. SR-ISE-2018-20)

March 22, 2018

Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Market Maker Plus Program in the Schedule of Fees

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 13, 2018, Nasdaq ISE, LLC (“ISE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend the Market Maker Plus program in the Schedule of Fees.

The text of the proposed rule change is available on the Exchange’s Website at <http://ise.cchwallstreet.com/>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange operates a Market Maker Plus program for regular orders in Select Symbols³ whereby Market Makers⁴ that contribute to market quality by maintaining tight markets are eligible for enhanced rebates. The purpose of the proposed rule change is to amend: (1) the expirations that are used to evaluate a Market Maker's performance and hence eligibility for rebates, and (2) the process for excluding certain days from the Market Maker Plus calculation. The Exchange believes that these proposed changes will encourage Market Makers to make quality markets in Select Symbols and thereby further the goals of the Market Maker Plus program.

Market Maker orders in Select Symbols are charged a maker fee of \$0.10 per contract⁵; provided that Market Makers that qualify for Market Maker Plus will not pay this fee if they meet the applicable tier thresholds set forth in the table below, and will instead receive the rebates described in the table based on the applicable tier for which they qualify.⁶ The Exchange is not proposing to amend the Market Maker Plus rebates, which will remain unchanged, but

³ "Select Symbols" are options overlying all symbols listed on the Nasdaq ISE that are in the Penny Pilot Program.

⁴ The term "Market Makers" refers to "Competitive Market Makers" and "Primary Market Makers" collectively. See ISE Rule 100(a)(28).

⁵ This fee also applies to Market Maker orders sent to the Exchange by Electronic Access Members.

⁶ A \$0.10 per contract fee applies instead of the applicable Market Maker Plus rebate when trading against Priority Customer complex orders that leg into the regular order book. There will be no fee charged or rebate provided when trading against non-Priority Customer complex orders that leg into the regular order book.

proposes to make changes to the process for evaluating Market Makers for achieving Market Maker Plus status.

Select Symbols other than SPY and QQQ

Market Maker Plus Tier (Specified Percentage)	Maker Rebate
Tier 1 (80% to less than 85%)	(\$0.15)
Tier 2 (85% to less than 95%)	(\$0.18)
Tier 3 (95% or greater)	(\$0.22)

SPY and QQQ

Market Maker Plus Tier (Specified Percentage)	Regular Maker Rebate	Linked Maker Rebate⁷
Tier 1 (70% to less than 80%)	(\$0.00)	N/A
Tier 2 (80% to less than 85%)	(\$0.18)	(\$0.16)
Tier 3 (85% to less than 90%)	(\$0.22)	(\$0.20)
Tier 4 (90% or greater)	(\$0.26)	(\$0.24)

A Market Maker Plus is defined in the Schedule of Fees as a Market Maker who is on the National Best Bid or National Best Offer (“NBBO”) a specified percentage of the time for series trading between \$0.03 and \$3.00 (for options whose underlying stock’s previous trading day’s last sale price was less than or equal to \$100) and between \$0.10 and \$3.00 (for options whose

⁷ Market Makers that qualify for Market Maker Plus Tiers 2-4 for executions in SPY or QQQ may be eligible for a linked maker rebate in addition to the regular maker rebate for the applicable tier. Linked maker rebate applies to executions in SPY or QQQ if the Market Maker does not achieve the applicable tier in that symbol but achieves the tier (i.e., any of Market Maker Plus Tiers 2-4) for any badge/suffix combination in the other symbol, in which case the higher tier achieved applies to both symbols. The regular maker rebate will be provided in the symbol that qualifies the Market Maker for the higher tier based on percentage of time at the NBBO.

underlying stock's previous trading day's last sale price was greater than \$100) in premium in each of the front two expiration months.⁸ Performance in each of the front two expiration months is measured daily, and would include all available expirations from the that trading day up to and including the first monthly expiration (i.e., the 1st front expiration month), and all expirations after the first monthly expiration up to and including the second monthly expiration (i.e., the 2nd front expiration month). At the end of the month, the Exchange calculates a monthly average based on daily performance in each of these two buckets, and Market Makers that meet the specified percentage of time at the NBBO in both buckets will qualify for the associated Market Maker Plus rebate.

In practice, using the front two expiration months to measure performance means that a Market Maker's performance is evaluated based on a shrinking number of contracts as the trading day approaches the monthly expiration date. For example, on February 1, 2018, a Market Maker's performance in symbol AAPL would have been measured in a number of weekly and monthly expirations leading up to and including the February monthly expiration (i.e., for the 1st front expiration month), and similarly in a number of weekly and monthly expirations beginning after the February monthly expiration up to and including the March monthly expiration (i.e., for the 2nd front expiration month). On February 15, 2018, however, the 1st front expiration month would include only one expiration – i.e., the February 16, 2018 monthly contract that expires the next day. The Exchange believes that this frustrates the goals of the Market Maker Plus program as Market Makers need to maintain quotes at the NBBO in a

⁸ Market Makers may enter quotes in a symbol using one or more unique, exchange assigned identifiers - i.e., badge/suffix combinations. Market Maker Plus status is calculated independently based on quotes entered in a symbol for each of the Market Maker's badge/suffix combinations, and the highest tier achieved for any badge/suffix combination quoting that symbol applies to executions across all badge/suffix combinations that the member uses to trade in that symbol.

more limited number of expirations as the next monthly expiration approaches, and will not get credit for maintaining tight quotes in other expirations that are not included.

The Exchange therefore proposes to change its Market Maker Plus methodology to ensure that a full month's worth of expirations are always included in each bucket for the Market Maker Plus calculation. Specifically, the Exchange proposes to amend the Market Maker Plus language to provide that: "Market Makers are evaluated each trading day for the percentage of time spent on the National Best Bid or National Best Offer ("NBBO") for qualifying series that expire in two successive thirty calendar day periods beginning on that trading day." Thus under the proposed methodology, on February 15, 2018, the periods referenced above would include all expirations: (1) from February 15, 2018 to March 17, 2018, and (2) from March 18, 2018 to April 17, 2018. Furthermore, the Exchange proposes to amend the definition of Market Maker Plus by clarifying that Market Maker Plus status requires the Market Maker to meet the specified percentage of time at the NBBO as a monthly average based on daily performance in each of the two successive periods described above.⁹ Qualifying series will also be defined separately as series trading between \$0.03 and \$3.00 (for options whose underlying stock's previous trading day's last sale price was less than or equal to \$100) and between \$0.10 and \$3.00 (for options whose underlying stock's previous trading day's last sale price was greater than \$100) in premium – i.e., current language without the reference to the front two expiration months, which the Exchange proposes to eliminate in connection with the changes to the expiration periods used by the Exchange in the Market Maker Plus calculation.¹⁰ Finally, the Exchange proposes to add

⁹ The current language contains a reference to the "National Best Bid or National Best Offer," which the Exchange proposes to change to "NBBO," based on defining NBBO as National Best Bid or National Best Offer in the immediately preceding sentence.

¹⁰ The Exchange proposes to remove all references to the front two expiration months in the Market Maker Plus description (e.g., in the section on excluding certain days from the

language that emphasizes that if a Market Maker would qualify for a different Market Maker Plus tier in each of the two successive periods described above, then the lower of the two Market Maker Plus tier rebates shall apply to all contracts. The proposed changes would add transparency around the process for evaluating Market Maker Plus status – i.e., by including more operational language that describes how performance is measured – and change the process to ensure that an appropriate number of expirations are included in the calculation.

In addition, the Schedule of Fees provides that a Market Maker's single best and single worst quoting days each month,¹¹ on a per symbol basis, will be excluded in calculating whether a Market Maker qualifies for the Market Maker Plus rebate, if doing so will qualify a Market Maker for the rebate.¹² While this provision is intended to aid Market Makers in achieving Market Maker Plus status, and therefore only applies if better for the Market Maker (i.e., if excluding these days will qualify the Market Maker for the rebate), it may provide a disincentive for Market Makers to increase their performance at the end of the month to meet a higher tier as the Market Maker's best quoting day may be removed in addition to the worst. For example, a Market Maker that is on the border between Tier 1 and Tier 2 on the last trading day of the month based on time at the NBBO could attempt to reach the higher tier by quoting more aggressively on that day but would not be incentivized to do if the day would simply be removed

Market Maker Plus calculation). Where applicable the Exchange will refer instead to the proposed thirty calendar day periods.

¹¹ The current language in the Schedule of Fees contains a reference to the expirations used in the calculation, which are being changed in this proposed rule change. See id.

¹² Other than days where the Exchange closes early for holiday observance, any day that the market is not open for the entire trading day or the Exchange instructs members in writing to route their orders to other markets may also be excluded from the Market Maker Plus tier calculation; provided that the Exchange will only remove the day for members that would have a lower time at the NBBO for the specified series with the day included.

as the best quoting day for the month. The Exchange therefore proposes to remove only the Market Maker's worst quoting day. Since this means that removing the day will always be beneficial to the Market Maker, the Exchange also proposes to remove the language related to excluding the day only if doing so will qualify a Market Maker for the rebate.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹³ in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,¹⁴ in particular, in that it provides for the equitable allocation of reasonable dues, fees, and other charges among members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange believes that the proposed changes to the periods used for the Market Maker Plus calculation are reasonable and equitable as this change is designed to encourage Market Makers to make quality markets in Select Symbols and thereby further the goal of the Market Maker Plus program. Currently, the Market Maker Plus program requires that Market Makers show their commitment to market quality by quoting at the NBBO a specified percentage of time in certain series in the front two expiration months – i.e., all available expirations from the trading day up to and including the first monthly expiration, and all expirations after the first monthly expiration up to and including the second monthly expiration. Because the Exchange measures performance using the front two expiration months, Market Makers have to quote a more limited subset of expirations as the trading day approaches a monthly expiration. The Exchange believes that it is preferable to evaluate performance based on two successive thirty calendar day periods so that as the monthly expiration approaches, Market Makers will

¹³ 15 U.S.C. 78f(b).

¹⁴ 15 U.S.C. 78f(b)(4) and (5).

nevertheless be able to qualify for Market Maker Plus by maintaining quotes at the NBBO in a number of available expirations. The Exchange believes that this balances the benefit provided by Market Maker Plus rebates with an appropriately demonstrated commitment to market quality. Furthermore, the proposed language also describes the operation of the Market Maker Plus calculation, which is evaluated each trading day and then computed as a monthly average based on daily performance. And finally, the proposed language makes other clarifying changes to the language, such as separately defining qualifying series based on language already included in the Market Maker Plus section of the Schedule of Fees, and reinforcing that the Market Maker Plus program requires a Market Maker to achieve the applicable tier in both of the two successive periods, meaning that if a Market Maker is in a different tier for each of the proposed expiration buckets, then the lower tier of rebate would apply to all contracts. The Exchange believes that adding this detail to the Schedule of Fees in connection with the change of the expirations used for the calculation will further increase transparency around the operation of this program. The Exchange also believes that the proposed changes are equitable and not unfairly discriminatory as all Market Makers can qualify for Market Maker Plus by meeting program requirements that are designed to incentivize Market Markets to maintain quality markets. Furthermore, the Exchange believes that the benefits to market quality that may result from Market Makers being required to maintain quotes at the NBBO in a number of expirations will flow to all market participants that trade on the Exchange.

In addition, the Exchange believes that the proposed change to the days excluded from the Market Maker Plus calculation is reasonable and equitable as not removing the best day will make it easier for Market Makers to achieve higher tiers of Market Maker Plus. More specifically, this change is designed to permit Market Makers to aim for a higher tier at the end

of month without potentially removing one of those trading days from the calculation if it is the Market Maker's best quoting day for the month. The Exchange believes that this will allow Market Makers to quote more aggressively at the end of the month in order to qualify for a higher tier of Market Maker Plus, and thereby contribute to market quality in Select Symbols. Furthermore, with the change described above, the Exchange believes that it is reasonable and equitable now to remove the language about removing the day only when doing so will qualify the Market Maker for the rebate. This language is no longer needed since removing the worst day will always be better for the Market Maker. Finally, the Exchange believes that these changes are equitable and not unfairly discriminatory as all Market Makers will be subject to the same qualification criteria for Market Maker Plus. The proposed fee changes described in this proposed rule change are applicable solely to Market Makers as the Market Maker Plus program, which is designed to encourage Market Makers to maintain quality markets, applies only to these members. The Exchange continues to believe that it is not unfairly discriminatory to offer rebates under this program only to Market Makers since Market Makers, and, in particular, those Market Makers that achieve Market Maker Plus status, are subject to additional requirements and obligations (such as quoting requirements) that other market participants are not.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed fee changes are pro-competitive as they are designed to encourage Market Makers to make quality markets in Select Symbols. The Exchange believes that the Market Maker Plus program will continue to encourage competition by incentivizing Market Makers to provide liquidity and maintain tight markets in Select Symbols. The Exchange operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a

particular venue to be excessive, or rebate opportunities available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its fees to remain competitive. Because competitors are free to modify their own fees in response, and because market participants may readily adjust their order routing practices, the Exchange believes that the degree to which fee changes in this market may impose any burden on competition is extremely limited.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act,¹⁵ and Rule 19b-4(f)(2)¹⁶ thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

¹⁵ 15 U.S.C. 78s(b)(3)(A)(ii).

¹⁶ 17 CFR 240.19b-4(f)(2).

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-ISE-2018-20 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-ISE-2018-20. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File Number SR-ISE-2018-20 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁷

Eduardo A. Aleman
Assistant Secretary

¹⁷ 17 CFR 200.30-3(a)(12).

